

The Arizona Department of Corrections retained MAXIMUS, Inc., a nationally recognized professional services firm for preparing studies that determine the total costs, both direct and indirect, of government services, to evaluate the department's preparation and applications of its Per Capita Operating Cost Report and Private Prison Cost Models and to provide findings and recommendations for improvement.

MAXIMUS' Report on the Evaluation of Arizona Department of Corrections' Operating Per Capita Cost Report and Private Prison Cost Model dated February 2006 concerns three critical ADC financial reports:

1. The **Operating Per Capita Cost Report** – The Operating Per Capita Cost Report (Cost Report) delineates the department's direct and indirect operating costs incurred by ADC to perform its responsibilities. Annually the department determines the operating per capita costs for each prison and its units for the prior fiscal year. The department requested MAXIMUS determine whether the methodology it utilized distributed costs accurately and reasonably reflected the operating costs incurred by ADC to incarcerate an inmate. MAXIMUS determined that the methodologies utilized in the development of the Cost Reports resulted in reasonable cost analyses and provided recommendations for improvement.

In prior years, the department also utilized the Operating Per Capita Cost Report as the basis to perform State versus private prison cost comparisons. MAXIMUS recommended that the department discontinue using the Cost Report as the basis to perform state versus private prison cost comparisons and instead, adopt the State Versus Private Prison Cost Comparison for that purpose.

2. **State versus Private Prison Cost Comparison** – Per ARS 41-1609.01 (L), the department is required to determine once every five years whether privatization provided a cost savings. As noted above, MAXIMUS recommended the department discontinue using the Operating Per Capita Cost Report as the basis to perform State versus private prison cost comparisons as the Cost Report does not enable the accurate comparison of ADC operated prison costs to private prison costs and instead, adopt the State Versus Private Prison Cost Comparison (Comparison Report) methodology to appropriately allocate costs to ADC and private prisons and/or exclude costs not borne by both.

The department employed the State Versus Private Prison Cost Comparison methodology to determine whether ADC-operated or private prison level-2 male bed facilities operated at less cost to the State in FY 2003 and FY 2004. (The comparisons are currently limited to level-2 male beds only because no beds in other custody levels were privatized in FY 2003 and FY 2004). The comparisons for FY 2003 and FY 2004 included every recommendation for which detailed data was available. The comparisons established that ADC-operated level-2 male beds cost was 8.5% to 13.5% less than comparable in-state private beds and that utilizing ADC-operated beds in FY 2003 and FY 2004 would have resulted in savings of \$3,519,331 to \$5,344,331 to state taxpayers. MAXIMUS' February 7 letters to ADC concerning its application of the cost comparison methodology are included with the Report. -

3. **Private Prison Cost Models** – Per ARS 41-1609.01 (G) ADC is required to determine whether privatization provides a cost savings to the department before contracting for permanent private beds. MAXIMUS recommended ADC discontinue the historical Cost Model and modify its projected Cost Model to provide a consistent, reasonable cost comparison to ascertain if there are any potential savings from privatization, developing its costs as a competitive bidder seeking to provide the requested services.

The department concurred with MAXIMUS' findings and recommendations and agreed to adopt them in full. The February 8 acceptance letter from ADC to MAXIMUS is also included with the Report.

Range, Unrealized Savings, FY03-FY04, due to Privatization of Level 2 Male Beds

Range, Unrealized Savings FY 2003								
FY 2003	State		Private		Unrealized Savings Per Day	x ADP =	Unrealized Daily Savings	Unrealized Yearly Savings (high)
	Per Diem	Annual Cost	Per Diem	Annual Cost				
Marana	43.15	7,087,388	47.28	7,765,740	4.13	450	1,859	678,353
Florence West	43.15	6,299,900	53.29	7,780,340	10.14	400	4,056	1,480,440
Phoenix West	43.15	6,299,900	47.51	6,936,460	4.36	400	1,744	636,560
Total		19,687,188		22,482,540				2,795,353
FY 2003	State		Private		Unrealized Savings Per Day	x ADP =	Unrealized Daily Savings	Unrealized Yearly Savings (low)
	Per Diem	Annual Cost	Per Diem	Annual Cost				
Marana	45.15	7,415,888	47.28	7,765,740	2.13	450	959	349,853
Florence West	45.15	6,591,900	53.29	7,780,340	8.14	400	3,256	1,188,440
Phoenix West	45.15	6,591,900	47.51	6,936,460	2.36	400	944	344,560
Total		20,599,688		22,482,540				1,882,853

Range, Unrealized Savings FY 2004								
FY 2004	State		Private		Unrealized Savings Per Day	x ADP =	Unrealized Daily Savings	Unrealized Yearly Savings (high)
	Per Diem	Annual Cost	Per Diem	Annual Cost				
Marana	43.56	7,154,730	47.15	7,744,388	3.59	450	1,616	589,657
Florence West	43.56	6,359,760	53.16	7,761,360	9.60	400	3,840	1,401,600
Phoenix West	43.56	6,359,760	47.38	6,917,480	3.82	400	1,528	557,720
Total		19,874,250		22,423,228				2,548,978
FY 2004	State		Private		Unrealized Savings Per Day	x ADP =	Unrealized Daily Savings	Unrealized Yearly Savings (low)
	Per Diem	Annual Cost	Per Diem	Annual Cost				
Marana	45.56	7,483,230	47.15	7,744,388	1.59	450	715	261,157
Florence West	45.56	6,651,760	53.16	7,761,360	7.60	400	3,040	1,109,600
Phoenix West	45.56	6,651,760	47.38	6,917,480	1.82	400	728	265,720
Total		20,786,750		22,423,228				1,636,478

ADP=Average Daily Population

In FY03 and FY04, the cost comparison only includes costs appropriated to ADC. Central support services costs provided by other Arizona state agencies to support ADC operations and asset depreciation on ADC facilities and equipment will be included effective FY07. Also inmate intake and transportation costs, currently included in ADC costs, will be tracked as separate cost centers and excluded from ADC costs effective FY07. The inclusion of central support and asset depreciation costs and the exclusion of inmate intake and transportation costs attributable to Level 2 male beds would increase ADC average daily costs by less than \$2.00, an increase of less than 5 percent.